

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Dave Kerr at 11:00 a.m. on January 30, 1996 in Room 123-S of the Capitol.

All members were present except: Senator Rock, who was excused

Committee staff present: Alan Conroy, Legislative Research Department
Julian Efird, Legislative Research Department
Michael Corrigan, Revisor of Statutes
Judy Bromich, Administrative Assistant
Ronda Miller, Committee Secretary

Conferees appearing before the committee:
Joe Lawhon, Legislative Division of Post Audit
Secretary Dean Carlson, Department of Transportation

Others attending: See attached list

Joe Lawhon distributed and reviewed copies of the Performance Audit Report titled "Reviewing Highway Construction in Kansas: A K-GOAL Audit of the Kansas Department of Transportation" dated November, 1995. This document is on permanent file in the office of the Division of Post Audit. Mr. Lawhon stated that the Division had audited the Department to see if each of the goals set by the Legislature for the Comprehensive Highway Program had been achieved. He stated that though the Department had met most of the goals, the Post Audit team could not determine if the Department had achieved the goal of increasing the number of priority bridge projects by 20%, but did determine that the Department did not spend sufficient funds on transportation programs to aid the elderly and the disabled.

Mr. Lawhon also briefly reviewed the taxes and fees which were increased to pay for the Highway Program. He called attention to the table on page 21 of the report which compared the projected and actual revenues for the State Highway Fund during the life of the program, noting that by the end of FY 97 the Department will have received \$895 million more in receipts from taxes, fees and grants than originally anticipated. Mr. Lawhon also discussed the actual and projected expenditures from the State Highway Fund for FY 90 to 2003 (pages 25 and 26 of the report). He noted that one issue of interest to legislators is whether the increased revenues will be sufficient to pay for the debt service incurred through the issuance of \$890 million of bonds. Mr. Lawhon pointed out that revenues from the quarter cent sales tax increase alone are sufficient to make the debt service payments (page 27 of the report).

In response to Senator Karr, he concurred that the Department did not have statutory flexibility in regard to the requirement that the Department let all contracts by June 30, 1997.

In answer to the Chairman, Mr. Lawhon stated that the team had not studied spending constraints on the federal money which constitutes approximately half of the revenues for the State Highway Fund (page 21 of the report).

Secretary Dean Carlson, Department of Transportation, testified that the Department does not disagree with the data presented in the report, but objects to the way in which the information is presented. He distributed and reviewed a document titled "Status of the Comprehensive Highway Program" (Attachment 1). In further response to Senator Karr, he indicated that the Department is required by June 30, 1997 to meet the goals of the Comprehensive Plan, but the Department does not have to have all projects shown on the map under contract by that time because the Department has the flexibility to meet the goals in different ways (Attachment 1-2). He stated that the individual projects are not covered under that commitment. Secretary Carlson reviewed the four categories of the Plan: substantial maintenance program, major modification program, priority bridge program, and system enhancement program. He noted that some of the system enhancement projects required time-consuming planning and did not become a part of the program until recently, resulting

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS, Room 123-S Statehouse, at 11:00 a.m. on January 30, 1996.

in an increase in the amount of money spent at the end of the program. In answer to Chairman Kerr, he stated that the increase in expenditures in the system enhancement category represents local participation and some higher than anticipated costs. In answer to Senator Karr, the Secretary stated that it was his understanding that projects that received local participation moved up on the priority list.

Addressing the Post Audit report, Secretary Carlson stated that the Department was unaware that transit districts were not returning monies given by the Department for the mobility of the disabled and elderly. The Department has put measures in place to correct the problem and the Secretary testified that during the life of the program, the Department will expend all money that was set up for this program. He also added that the Department had a goal of reconstructing 175 bridges and will reconstruct 188 by the end of the program.

Secretary Carlson reviewed the "Revenues, Expenditures, and Ending Balances" section of his written testimony (Attachment 1-27 through 31). Chairman Kerr pointed out that the difference between the Post Audit report and the Secretary's position is that the P.A. report is simply an accounting of the revenues and does not reflect the additional expenditures incurred by the Department (page 21 of the report). Although all agreed that there is not an \$895 million pool of money, the Department will have received \$895 in unanticipated revenues by the end of the Plan. The Secretary pointed out that ending balances and projected expenditures have been reflected every year in the annual reports from 1990-1995 (Attachment 1-32 through 38).

Chairman Kerr asked whether it would be advantageous to extend the timeframe in which contracts have to be let in order to avoid cost increases due to contractor workload. The Secretary responded that he believes that all the contracts can be let by June 30, 1997 and the only reason the Legislature might need to address the issue is if the cost of construction increases or the number of bidders decreases.

A memorandum from the Research Department was distributed to Committee members (Attachment 2). Staff explained that the first chart plots the 1996 revenues and balances reported by KDOT against estimates made in 1989. The second chart graphs estimated expenditures in 1989 compared to revised estimated expenditures in 1996 as reflected in the Governor's Report. The Chairman pointed out that more construction work will be done under the Comprehensive Highway Plan than was projected in 1989 even though the Legislature lapsed 1.5%.

The Chairman adjourned the meeting at 12:15 P.M. The next meeting is scheduled for February 1, 1996.

*STATUS OF THE
COMPREHENSIVE HIGHWAY
PROGRAM*

*Senate Ways & Means
January 30, 1996
Attachment 1*

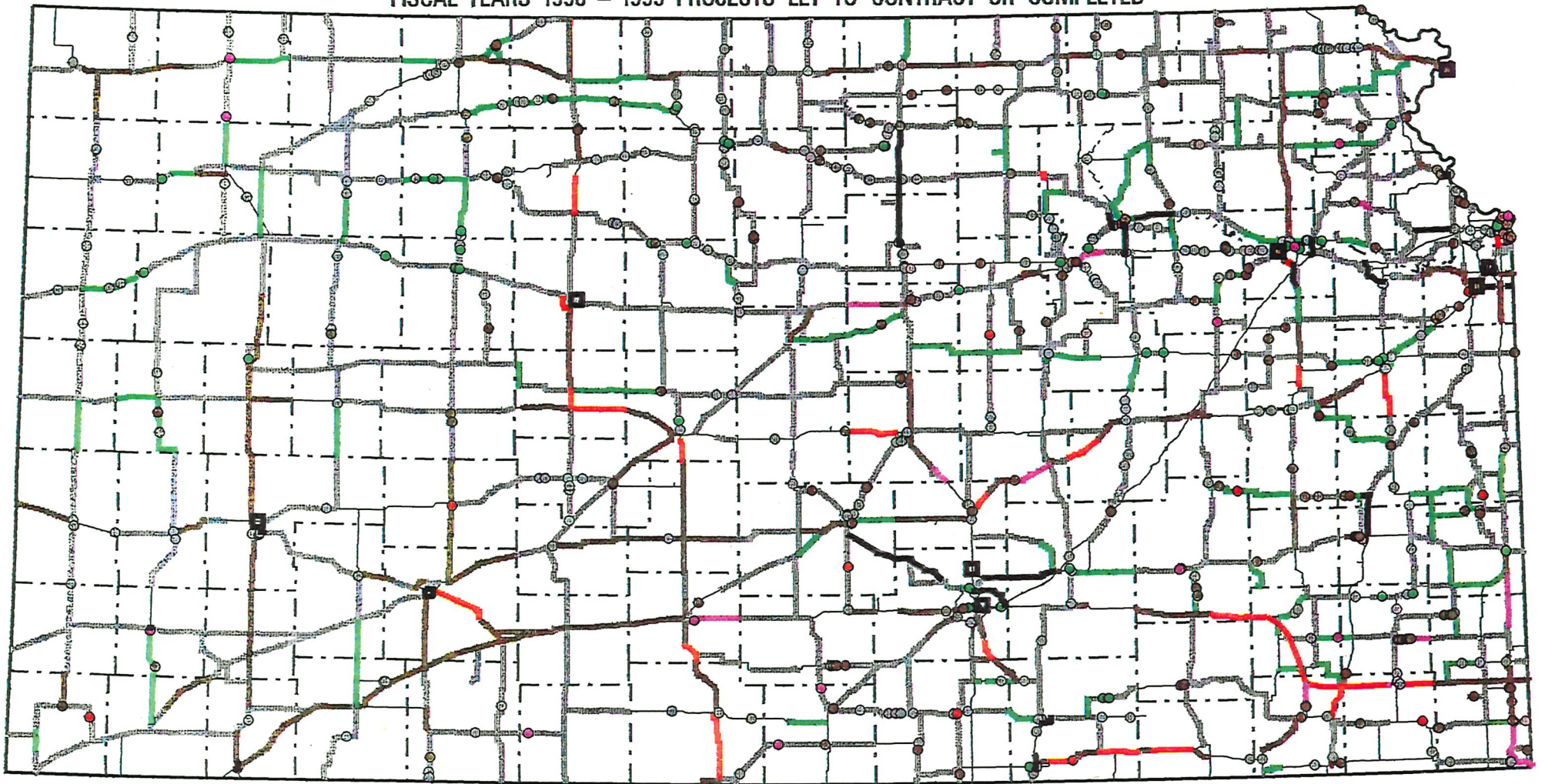
KANSAS COMPREHENSIVE HIGHWAY PROGRAM

FISCAL YEARS 1996 - 1997 PLAN

FISCAL YEARS 1991 - 1997 SYSTEM ENHANCEMENT PROJECTS

FISCAL YEARS 1990 - 1995 PROJECTS LET TO CONTRACT OR COMPLETED

2-1



SUBSTANTIAL MAINTENANCE PROJECTS

- 1990 - 95 ROADWAY
- 1990 - 95 BRIDGE
- 1996 ROADWAY
- 1996 BRIDGE

SYSTEM ENHANCEMENT PROJECTS

- 1991-1997 ROADWAY
- 1991-1997 INTERCHANGE /SEPARATION

MAJOR MODIFICATION AND PRIORITY BRIDGE PROJECTS

- 1996 ROADWAY
- 1996 PRIORITY BRIDGES
- 1997 ROADWAY
- 1997 PRIORITY BRIDGES
- 1990 - 1995 MAJOR MODIFICATION AND PRIORITY BRIDGE PROJECTS LET TO CONTRACT OR COMPLETED

Substantial Maintenance Program:

- 22% of the 8-year construction expenditures
- Over 9,500 miles total
- Over 450 bridges and culverts
- Approximately 2,000 projects

5/31/1995

Major Modification Program:

- 54% of the 8-year construction expenditures
- 130 miles of Interstate & 165 bridges
- 1,641 miles of non-Interstate and 399 bridges
- Approximately 450 projects

5/31/1995

Priority Bridge Program:

- 5% of the 8-year construction expenditures
- 188 bridges

5/31/1995

System Enhancement Program:

- 19% of the 8-year construction expenditures
- \$896 million total project cost, including \$175 million local funds
- 33 projects
(18 corridors, 8 interchanges, 7 bypasses)
- 12 projects under construction
9 projects are yet to be let
12 projects completed and open to traffic

11/1995

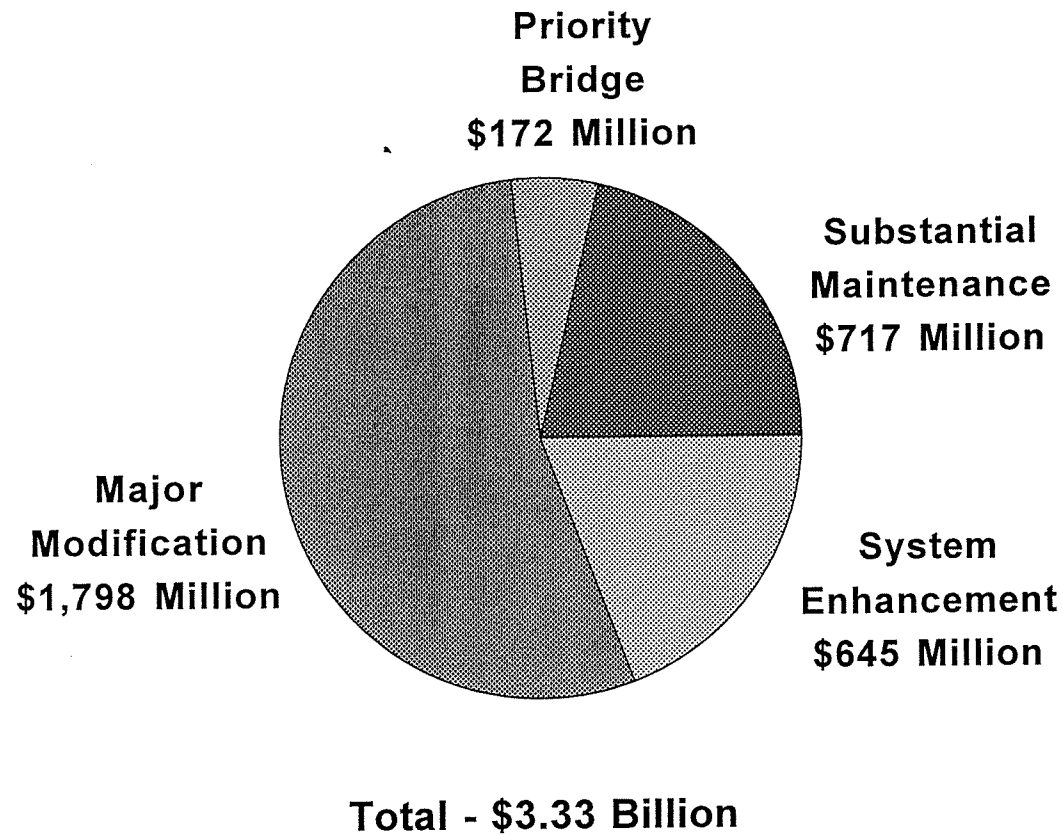
Other Requirements:

- \$2.5 million to be expended in each county
- \$390,000 per year dedicated to improve the mobility of the disabled and elderly
- increased to \$1 million in 1994
- Increase in Special City and County Highway Fund and City Connecting Link payments

5/31/1995

Kansas Comprehensive Highway Program

Estimated Construction Cost
FY 1990 - 1997

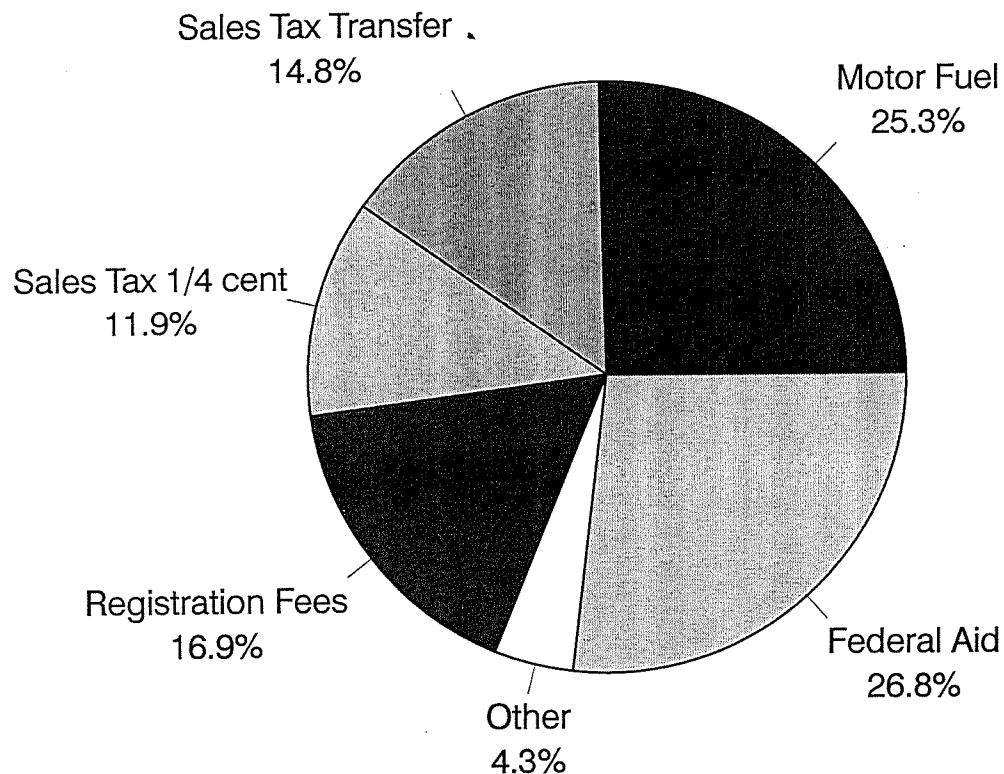


5/31/1995

*PLANNING FOR
FY 1998 - 2000*

*INTERIM PROJECTS
AND
PLAN PRODUCTION*

State Highway Fund Revenues Including Federal-Aid Kansas Department of Transportation FY 1998 - 2000



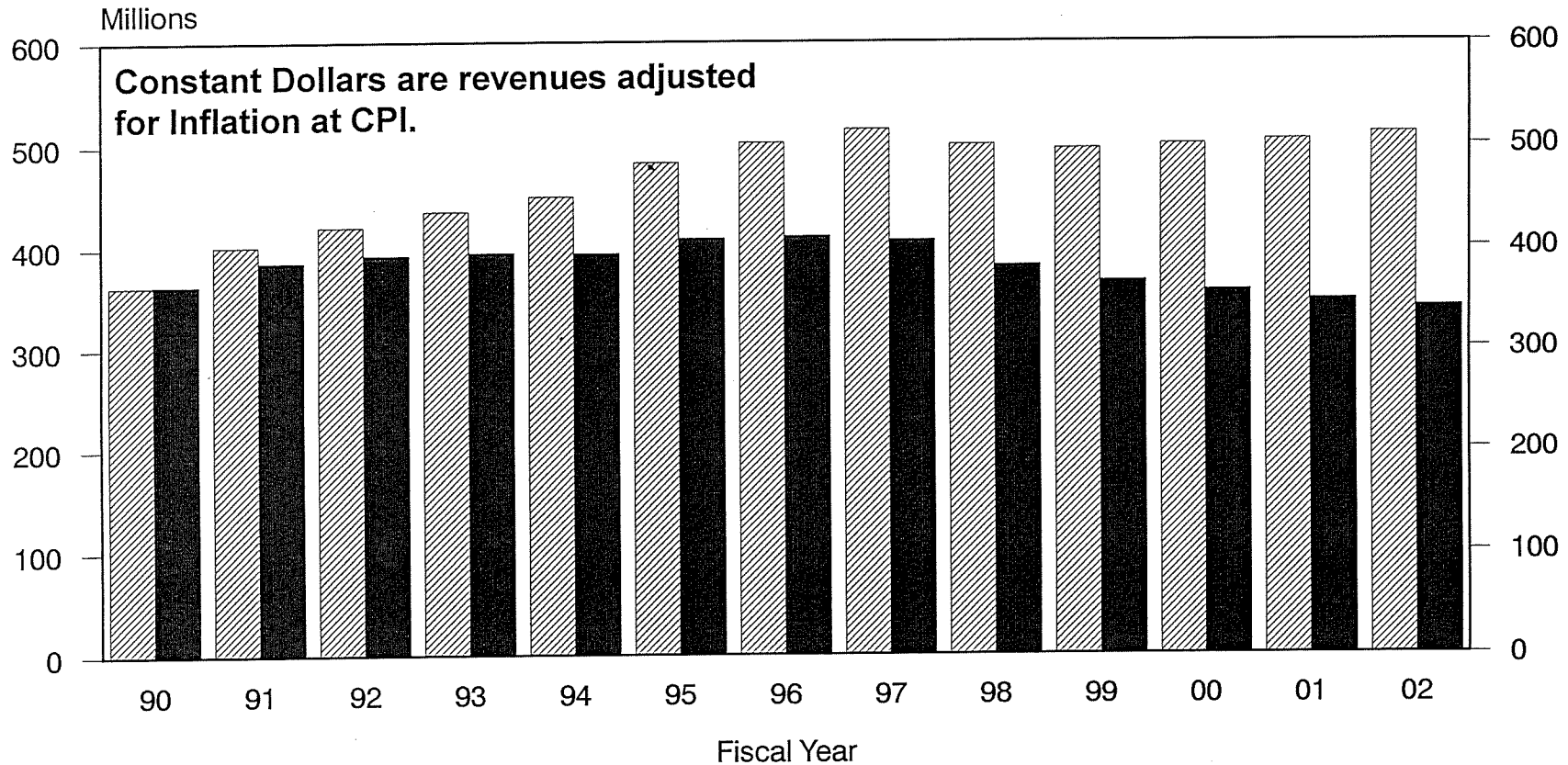
Anticipated Cash Flow

1-1

State Revenues

Before Federal Reimbursements & Bond Sales

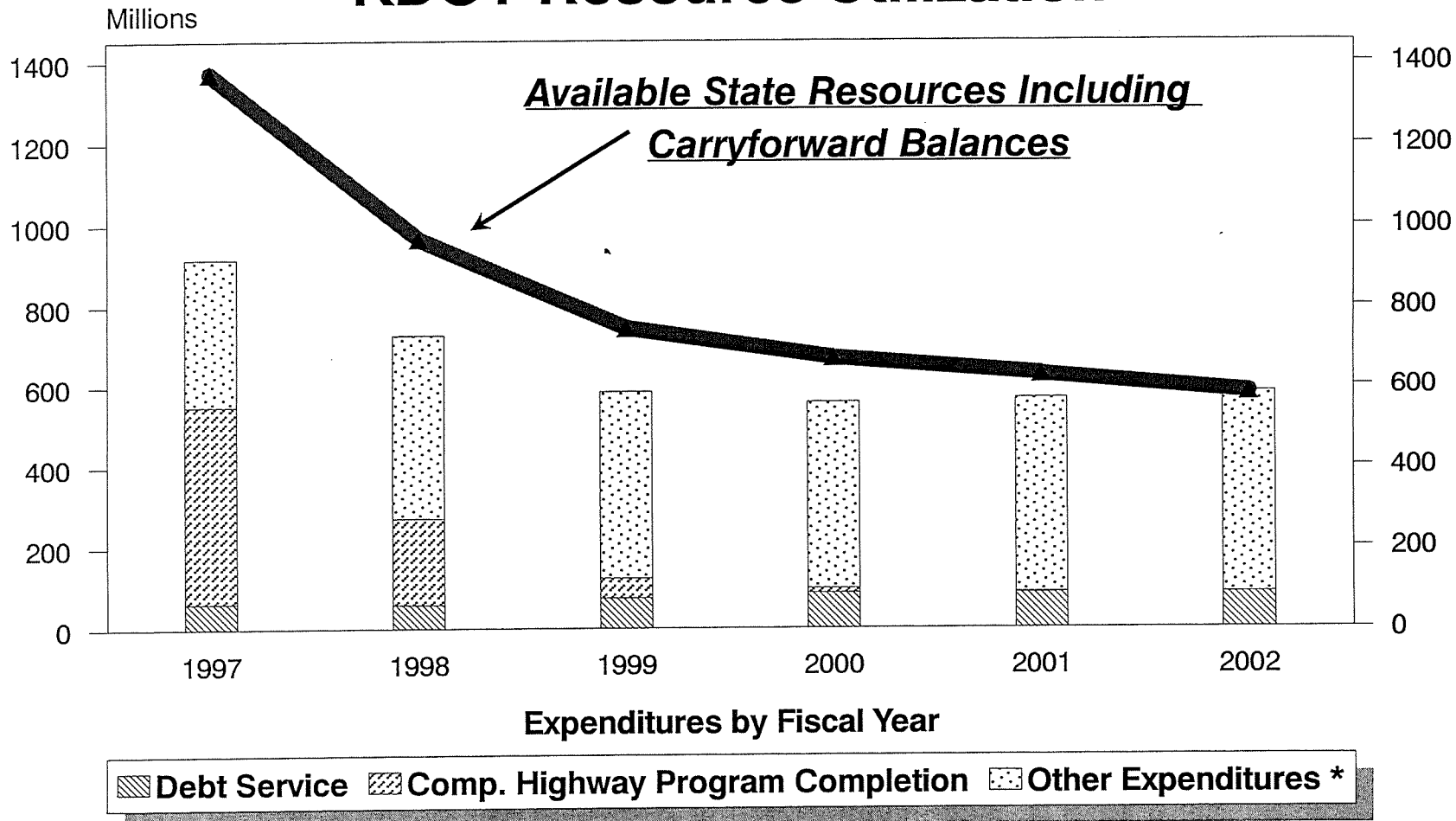
STATE HIGHWAY FUND



▨ Jan 96 Est (90-95 Actual) ■ Constant Dollars (1990 = 100)

Excludes Federal & Local Reimbursements and Federal Aid to Locals in the Restricted Fees Fund
Includes Motor Fuel Taxes deposited in the State Freeway Fund

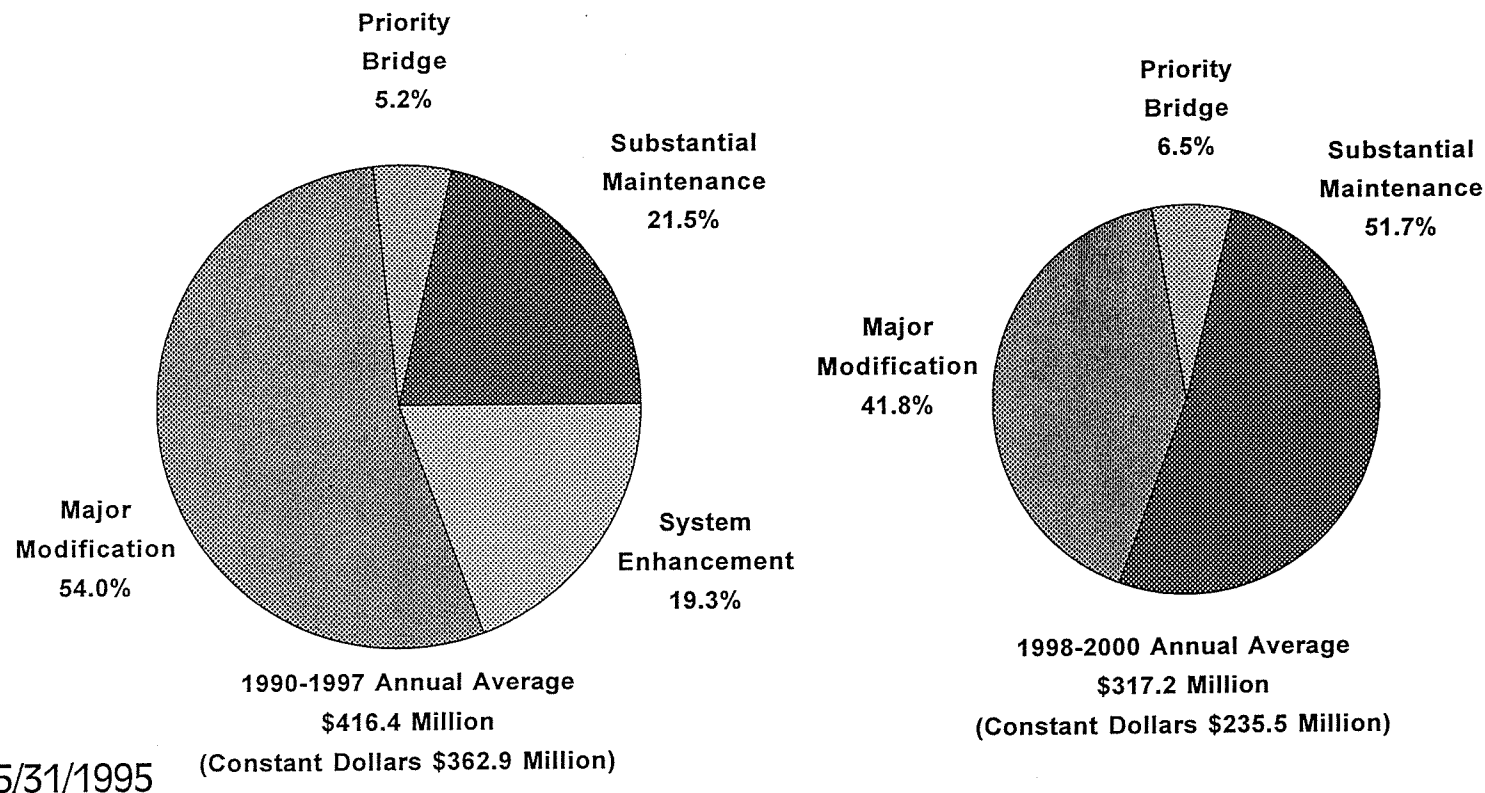
Projected KDOT Resource Utilization



* Other Expenditures includes Agency Operations, Transfers and Buildings for FY 1997 and subsequent years; Substantial Maintenance Contracts let in FY 1998 and thereafter and State funds required to match Federal Aid on projects let in FY 1998 and subsequent years.

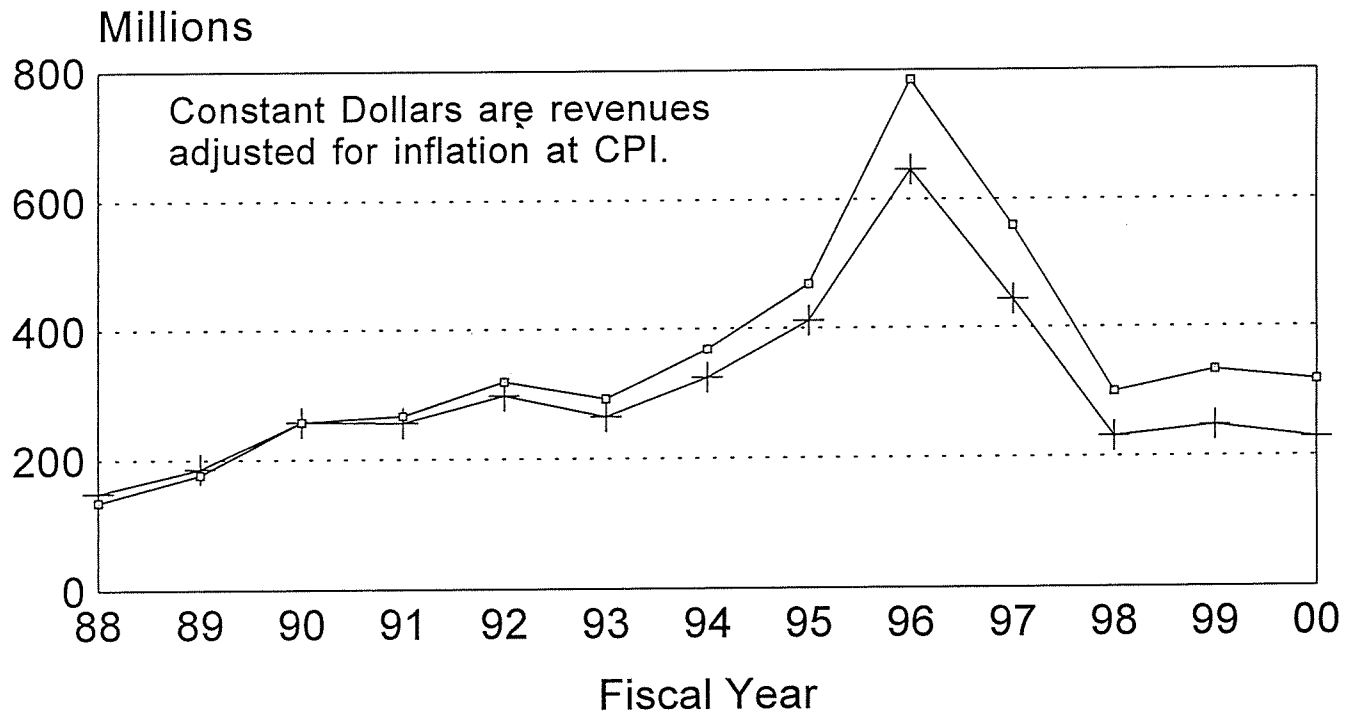
Note: Federal Reimbursement has been netted against construction expenditures.

Comparison of Estimated Construction FY 1990-2000



Comparison of Total Construction

FY 1988-2000

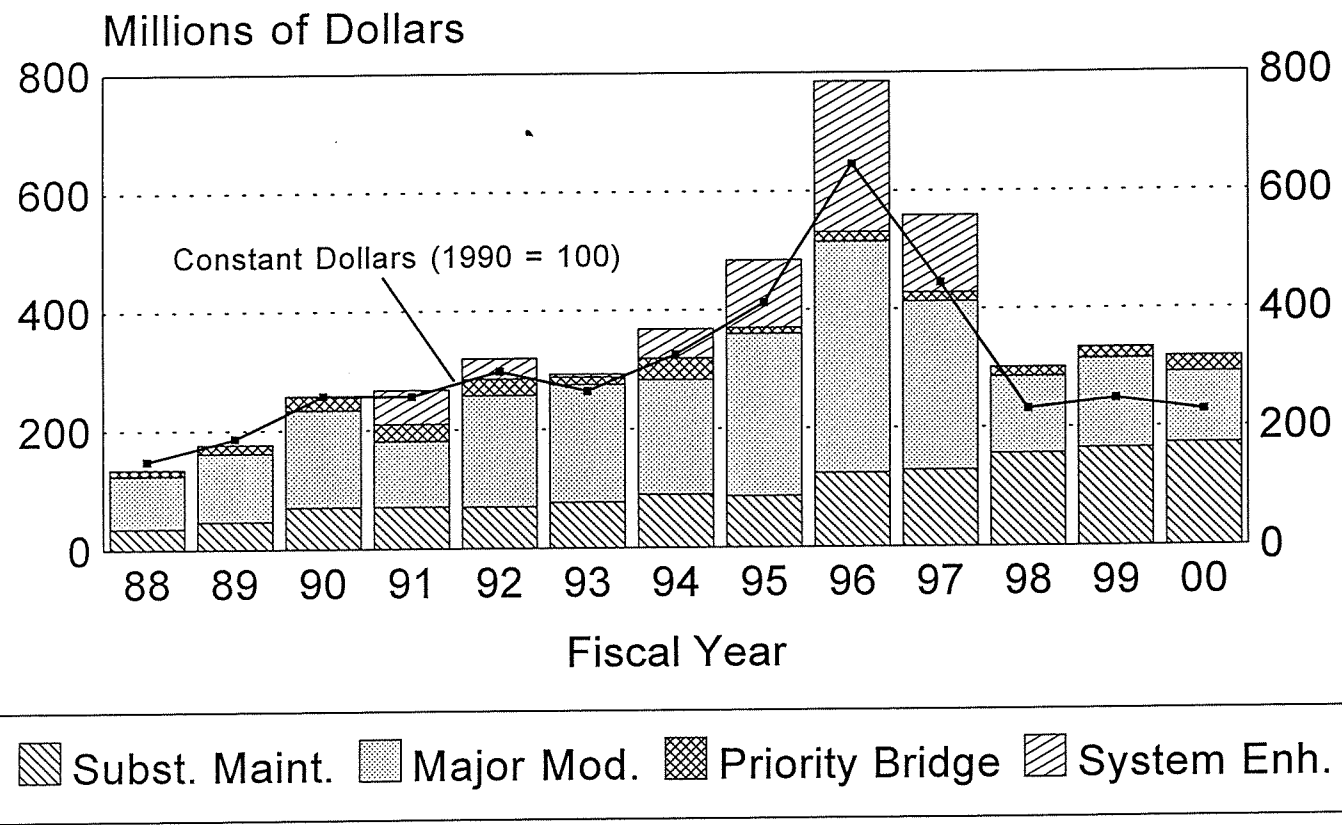


□ 6/95 Est(88-94 Actual) + Constant \$ (1990=100)

5/31/1995

Comparison of Total Construction

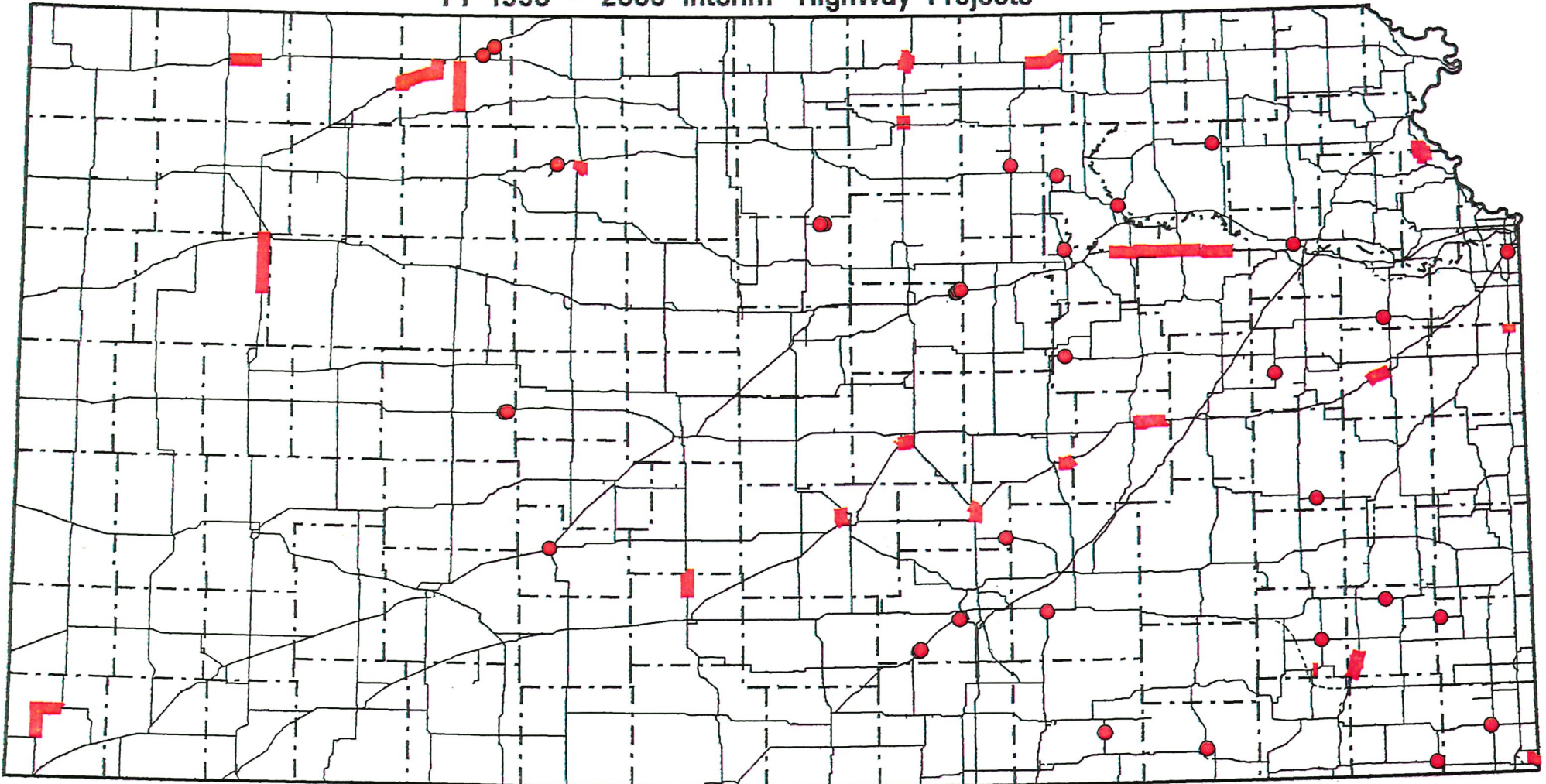
FY 1988-2000



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Constant Dollars are revenues adjusted for inflation at CPI.

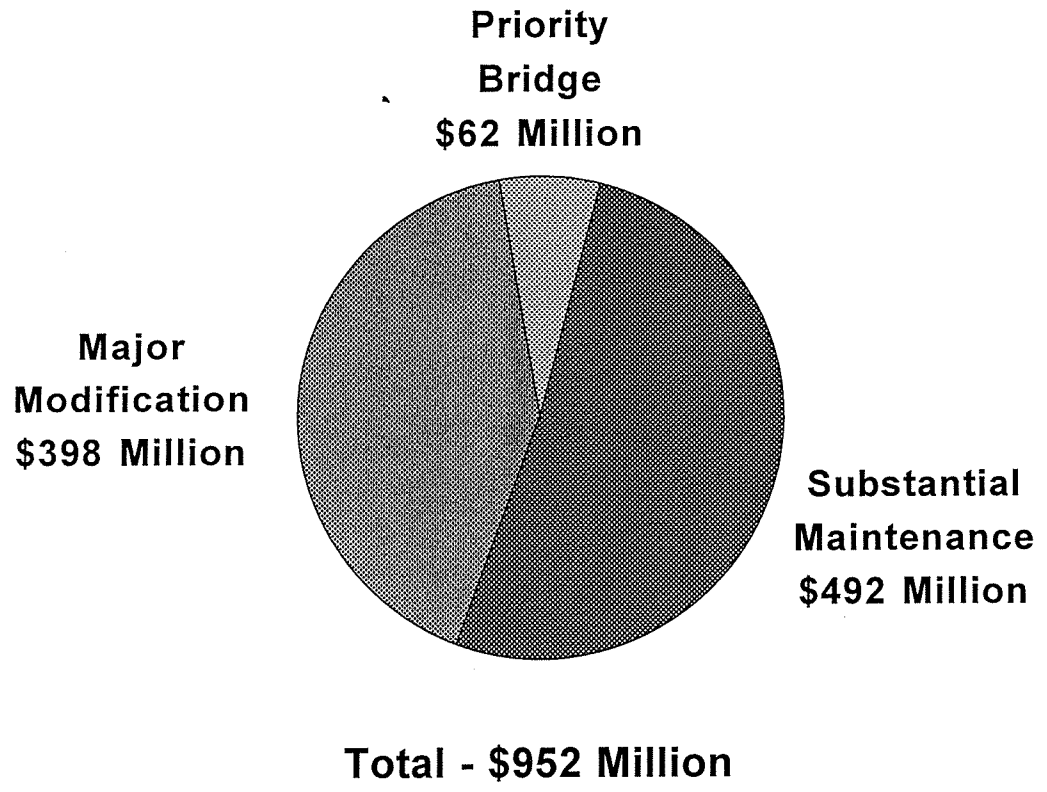
FY 1998 - 2000 Interim Highway Projects



- 1998 - 2000 Major Modification
- 1998 - 2000 Priority Bridge

Interim Highway Projects

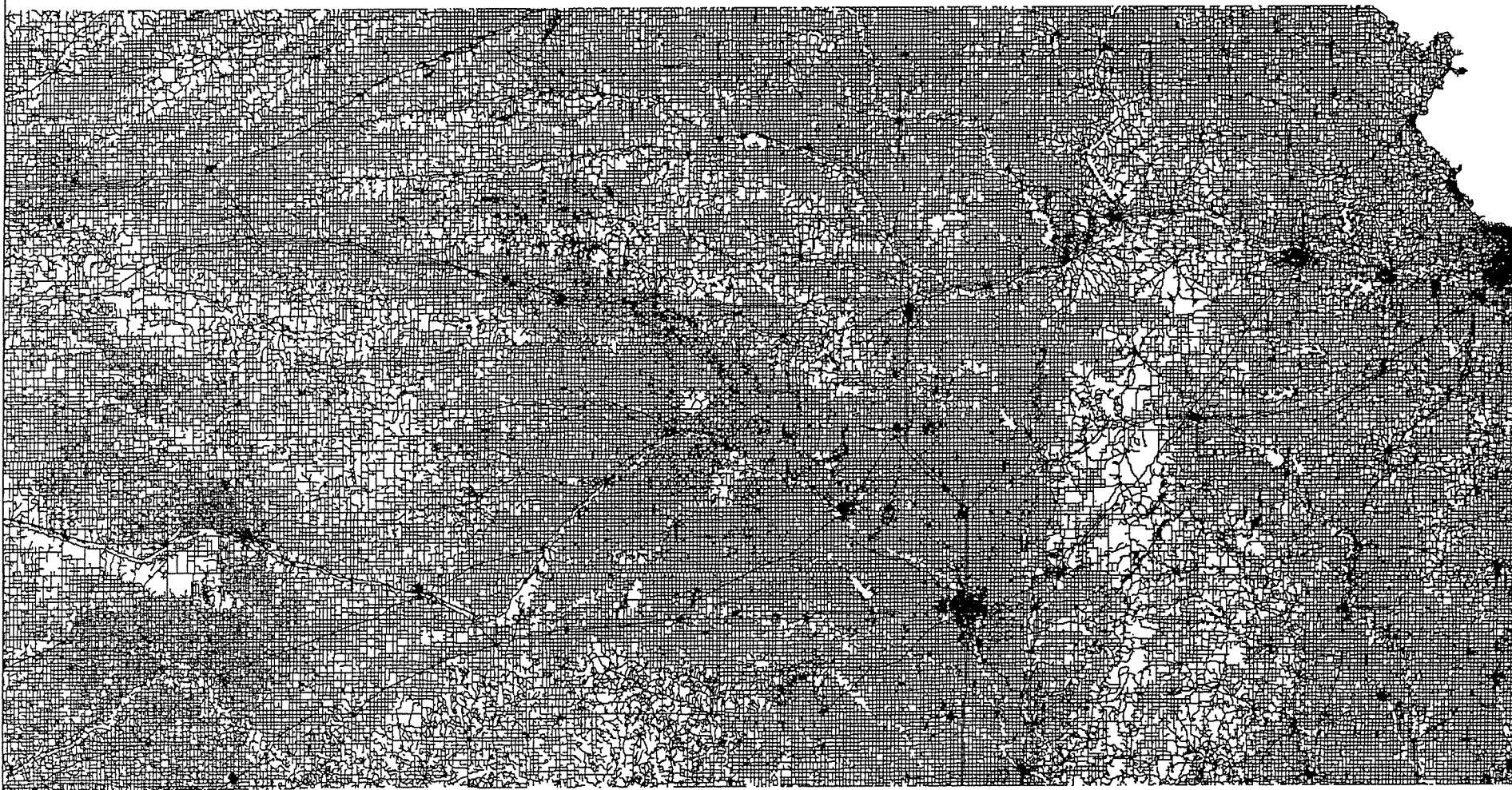
Estimated Construction Cost FY 1998 - 2000



5/31/1995

*Future
Transportation
Needs*

All Roads in Kansas - 1990

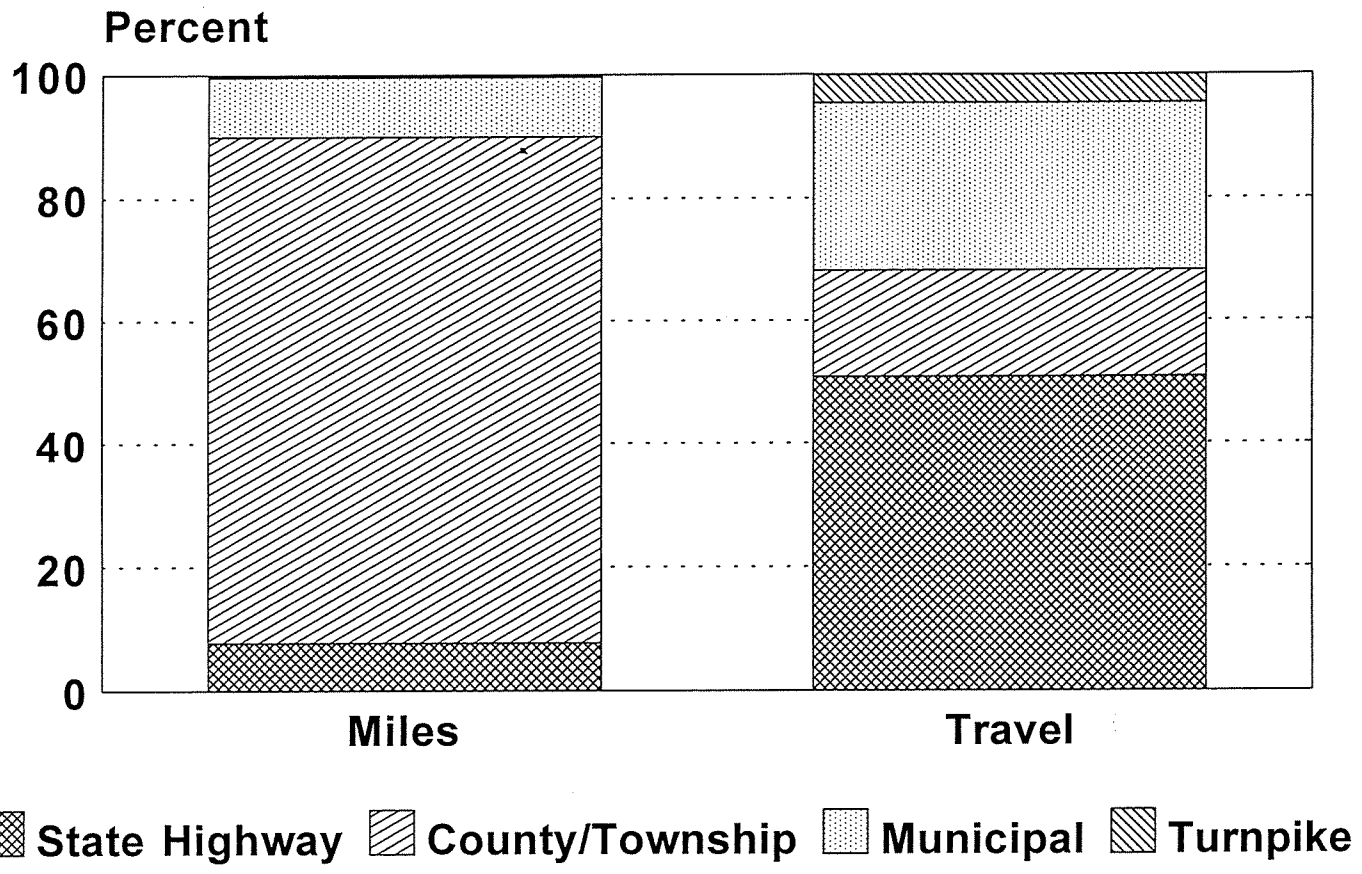


COMPARISON OF PUBLIC ROAD MILES & POPULATION

State	<u>Public Road Miles</u> Ranking	<u>Miles</u>	1990 Population
Texas	1	294,142	16,986,510
California	2	169,201	29,760,021
Illinois	3	136,965	11,430,602
Kansas	4	133,257	2,477,574

1993 Data

Kansas Public Road Miles Percent by Jurisdiction -1993



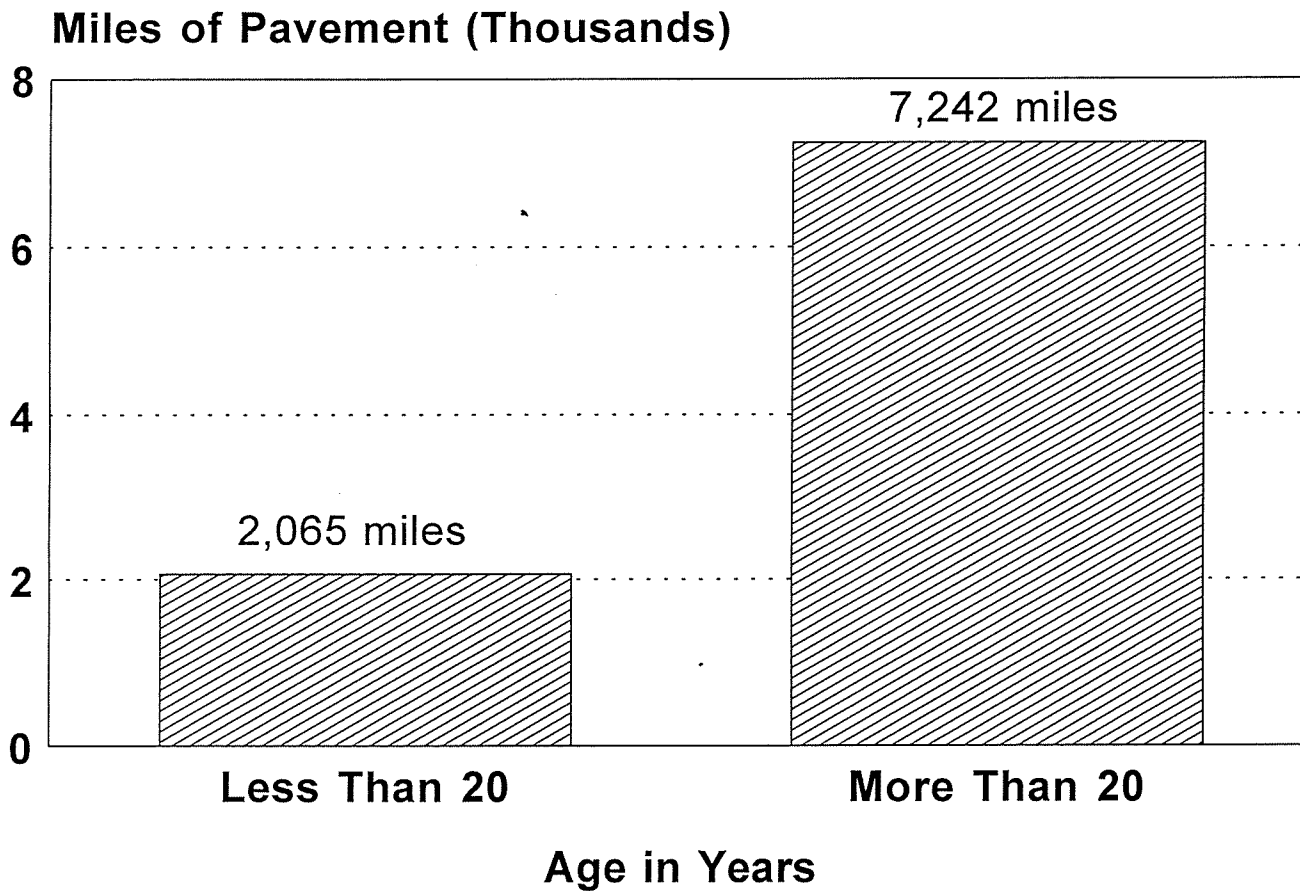
12/28/1994

Deficiencies on the State System after CHP:

- Deficient Shoulder Width - 1,750 miles
- Deficient Shoulder Type - 3,650 miles
 - Full width paved - 240 miles
 - 3 feet paved - 3,410 miles
- Pavement older than 20 years
 - Non-Interstate - 7,240 miles
 - Interstate - 375 miles
- Bridge Needs
 - Significantly deficient conditions - 395
 - Critically deficient width - 410

5/31/1995

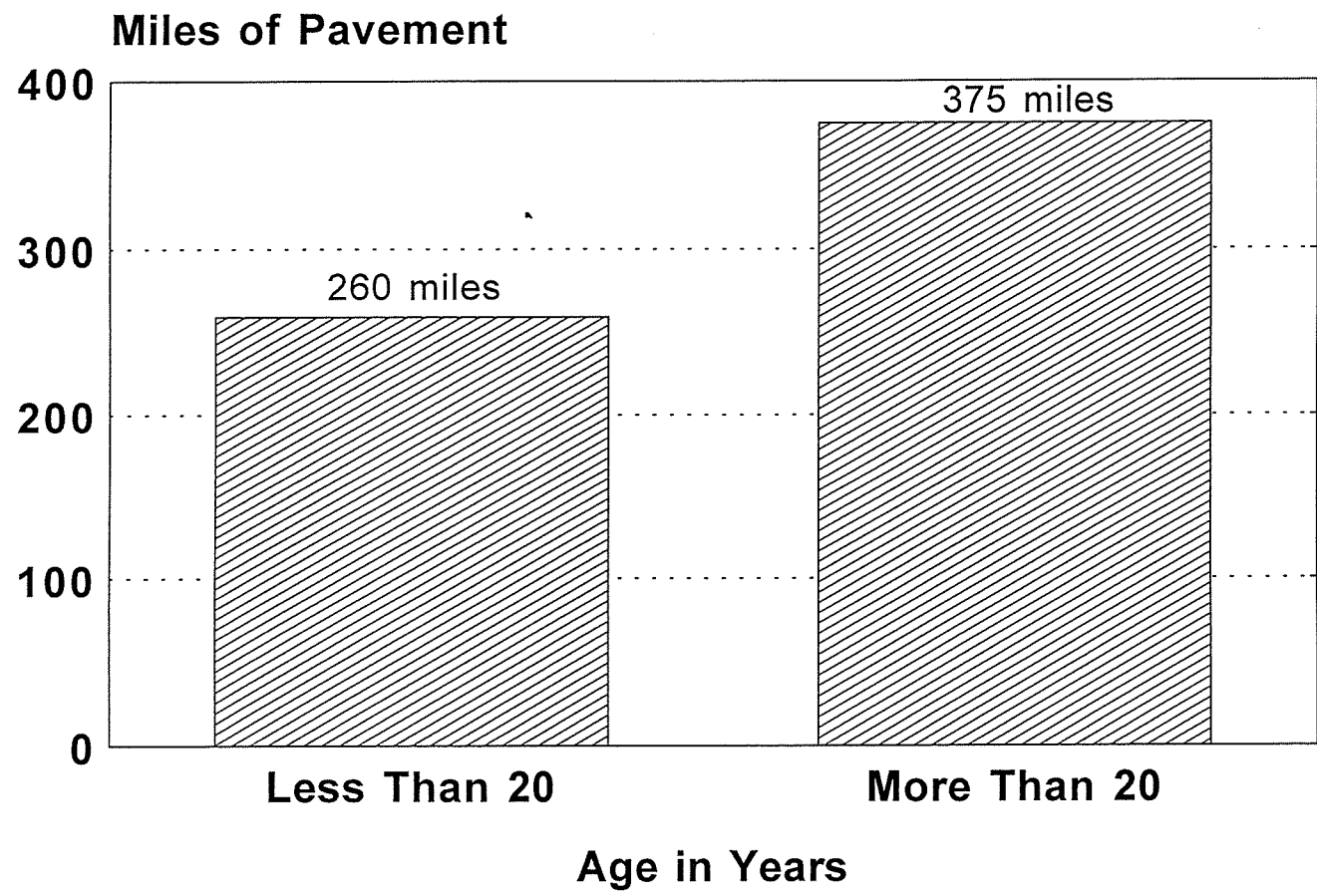
Age of Non-Interstate Pavement*



*Includes all projects in CHP

12/28/1994

Age of Interstate Pavement*



*Includes all projects in CHP
12/28/1994

Bridge Needs:

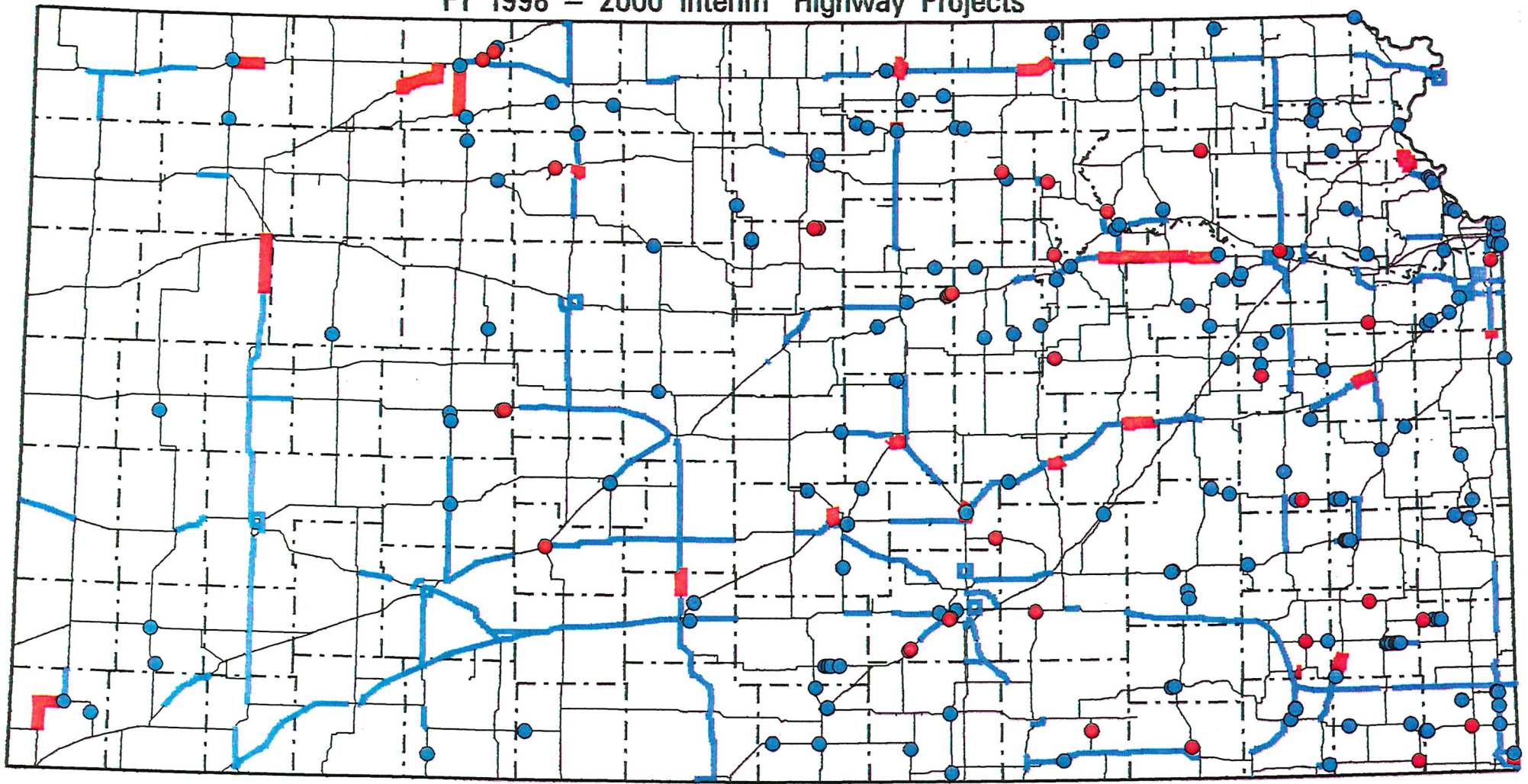
3,153 Span Bridges on the State Highway System

- Age of Bridges (After CHP)
 - 387 bridges over 50 years old
 - 620 bridges with 10 years or less of remaining life
- Bridge Decks
 - 723 bridge decks over 30 years old
 - 715 bridge decks with 10 years or less of remaining life

12/28/1994

FY 1990 – 1997 Kansas Comprehensive Highway Program

FY 1998 – 2000 Interim Highway Projects



- 1990–1997 Major Modification
- 1990 – 1997 Priority Bridge
- 1991 – 1997 System Enhancement

- 1998 – 2000 Major Modification
- 1998 – 2000 Priority Bridge

*Revenues,
Expenditures,
and Ending Balances*

Additional KDOT Expenditures
(In Millions)

Project Expenditures	\$130		
Agency Operations (including agency local support and buildings expenditures)	<u>\$(56)</u>		
Total Program Expenditures (represents approximately a 1.5% increase over 1989 projections)	\$74	\$74	
Transfer to Freeway Fund to Provide Early Retirement of Freeway Bonds		\$92	
Additional Transfers to Others		\$33	
Debt Service for Early Bonding (This expenditure is essentially cancelled out by additional Interest earnings)		<u>\$115</u>	
Unanticipated/rescheduled financial transactions	\$240	<u>\$240</u>	
Total Increase in Agency-related Expenditures		\$314	\$314
Payments for Local Construction Projects. Represents an increase due to a change in method of accounting for such projects			<u>\$259</u>
Total additional expenditures identified by Legislative Post Audit			<u>\$573</u>

1-28

Use of Additional Revenues

(In Millions)

Spent on agency-related expenditures	\$314	
Spent on Local Construction Projects (Now reflected as an expenditure because a change in the method of accounting reflects local funds as receipts)	<u>\$259</u>	
Total expended through June 30, 1997	\$573	\$573
Increase in ending balance as of June 30, 1997		<u>\$322</u>
Total additional revenues identified by Legislative Post Audit		<u>\$895</u>

Ending Balance as of June 30, 1997

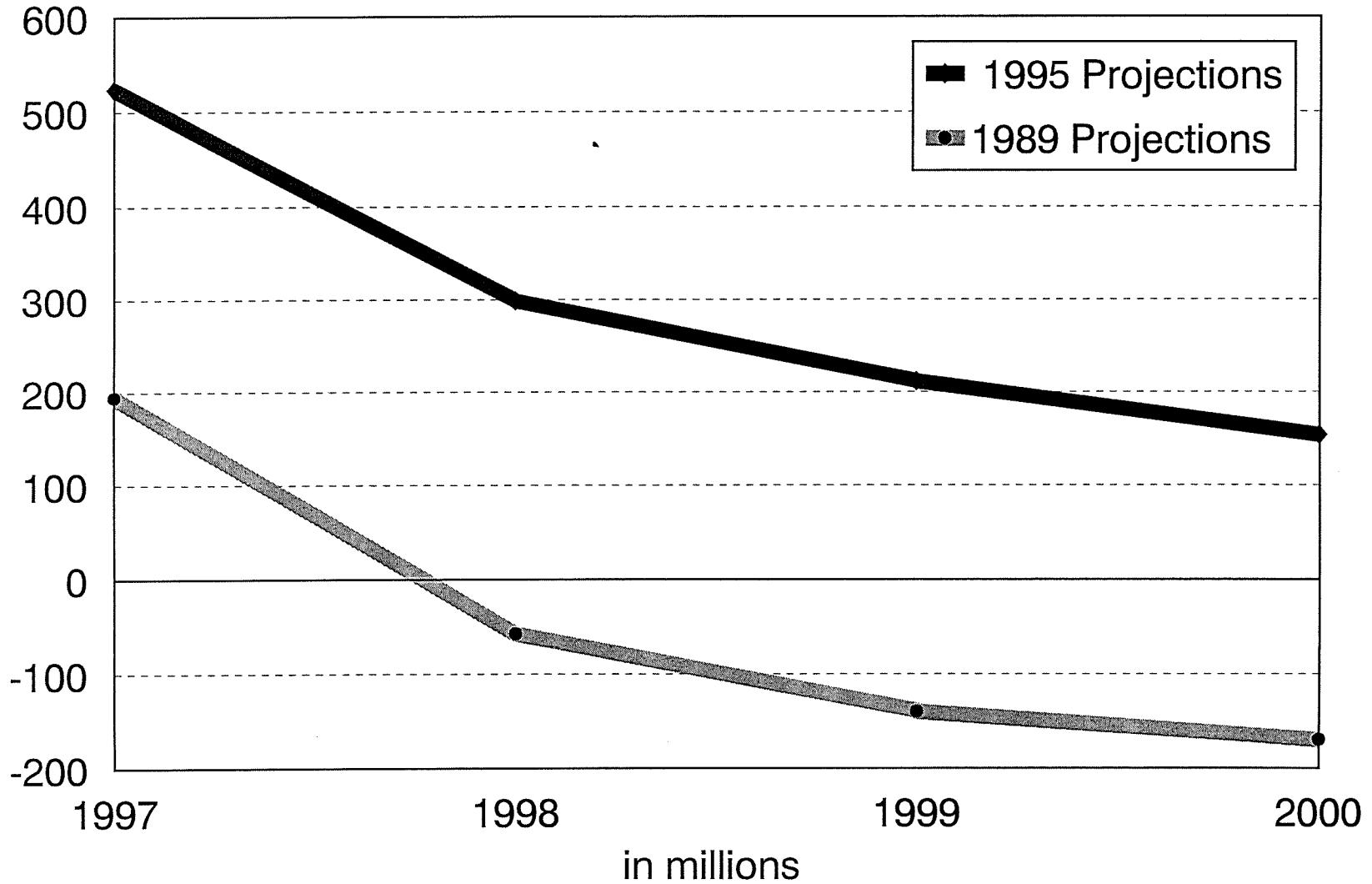
(In Millions)

Ending Balance -- Projected in 1989	\$194
Increase in Revenues over Expenditures	\$322
Change in Originally Projected Beginning Balance (\$6) and rounding differences	<u>\$8</u>
Ending Balance*	<u>\$524</u>

*as projected at the time of the Legislative Post Audit Report

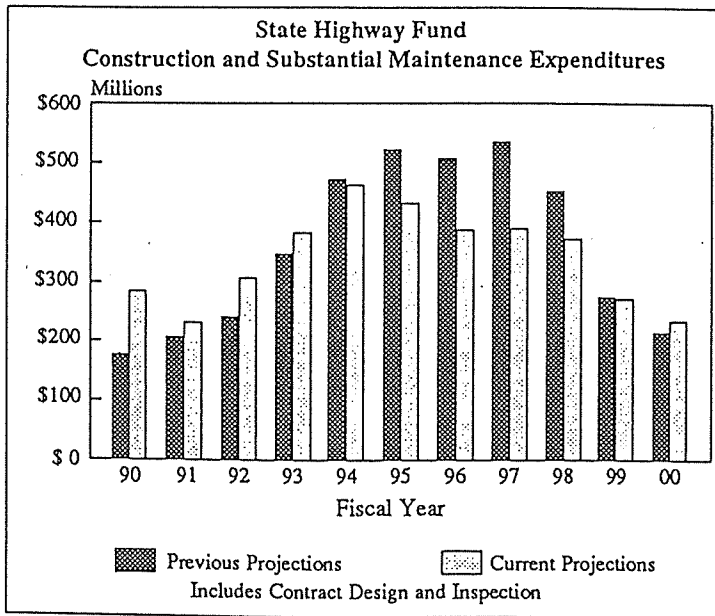
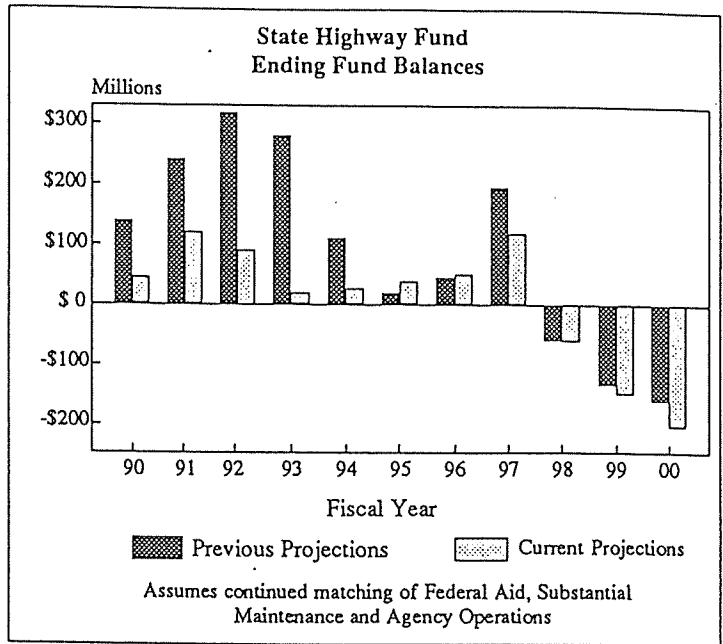
Cumulative Excess/Revenues over Expenditures

1989 vs 1995 Projections



this ongoing evaluation as well as the previously discussed "fast track" projects is reflected in the revised construction expenditure estimates. The following chart compares the previous projections with the current projections and as can be seen shows the smoothing of construction expenditures that have been discussed.

Current projections for anticipated revenues and agency expenditures continue to indicate that the agency is fully funded through FY1997 and that sufficient funds will be available to complete all projects initiated under the Comprehensive Highway Program.



REQUIRED LEGISLATION

The agency, in order to complete the comprehensive highway program at the lowest possible cost to the citizens of the State of Kansas, has a need for the following legislation.

Utility Relocation Assistance

The agency requests the ability, under certain circumstances, to provide financial assistance to public utilities in the relocation of facilities due to a highway project. Such authority should be limited to not more than \$20,000 per utility for any single project and a utility should be required to demonstrate a need for such assistance. The funds would constitute a loan and would be subject to interest charges pursuant to K.S.A. 16-204. Frequently, small utilities do not have the resources to relocate utility facilities due to a highway project and such projects are delayed until the utility is able to make the necessary relocation.

ENDING BALANCES

Previously anticipated build up in cash balances are currently not anticipated to occur because of lowered revenue expectations and the smoothing of construction through the identification of "fast track" projects as well as earlier letting of future projects. The lower cash balances do not indicate an inability to complete the contemplated program rather indicate shifts within the program time frame.

Enhanced Authority To Acquire Fee Simple Title By Eminent Domain

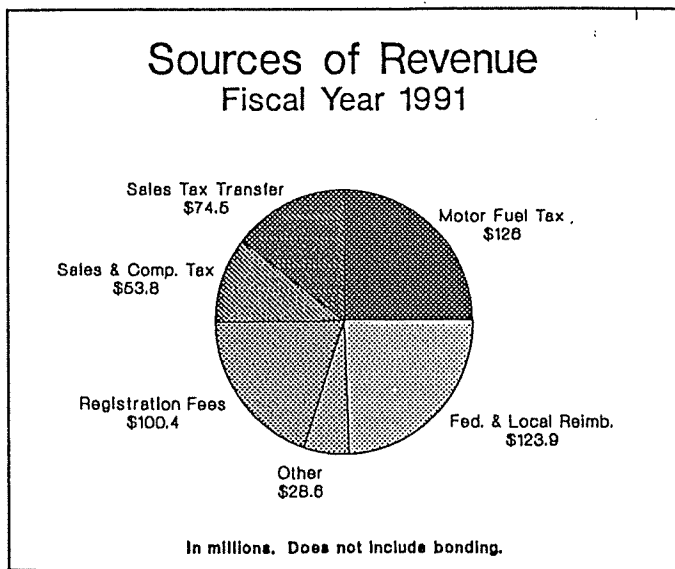
The agency is requesting legislation to allow the agency to acquire property for highway projects by condemnation in fee simple title. The Interim Committee concurred with the request but limited the concurrence to properties within the boundaries of a city. KDOT also would have the authority to dispose of all or part of the acquired property, under certain residual rights of the previous owner, when the agency determines that the land is no longer required.

shifted \$131 million more to finance the selected system enhancement projects, bringing the total to approximately \$703 million.

In June of 1990, the selected system enhancement projects were announced. Thirty-three projects were selected from the eligible applications. The chart on page 2 shows the number and value of the selected system enhancement projects by project category. An estimated \$201 million of local funds will be committed along with state funds.

PROGRAM FUNDING

The major sources of funds for the State Highway System are federal highway trust funds, state motor fuel tax revenue, state vehicle registration fees, the transfer from the State General Fund of a portion of the sales tax revenue representing the sale of new and used vehicles, and a sales and compensating use tax of .25 percent. Taken together, revenues from the sales tax transfer and the sales and compensating tax are expected to provide 25 percent of the funds available to finance the Comprehensive Highway Program in FY 1991.



Petroleum Prices

Kansas crude oil and natural gas production and prices will be strongly influenced by OPEC's efforts to manage production and price levels and by the added cost that may result from shortages arising from the Middle East situation. A shooting war could significantly alter any current projections concerning project costs and revenues. When additional information about long-term oil prices is available, it may be necessary to revise the current projections.

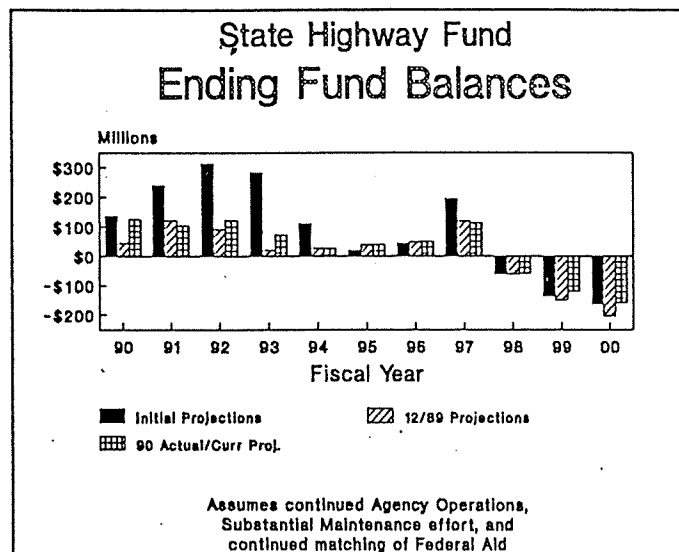
Bonding

K.S.A. 1990 Supp. 68-2320 authorizes the Secretary of Transportation to issue bonds, not to exceed a principal amount of \$890 million, for needs associated with the highway program. The

agency's current analysis and projections are based on bonding when the cash is required for the program. Although this is an obvious approach, it is not necessarily the only advantageous way bonding authority might be used. The agency is continuing to evaluate other possible bonding alternatives. The projected cash flows have taken debt service needs into consideration, and current projections indicate that adequate money will be available for debt service payments.

Projected Ending Cash Balances

The accompanying chart compares the current projections with the original ones and those made in December of 1989. As the chart shows, the acceleration of the program reduced early cash balances. Funds are still adequate to finance agency operations and all program components through FY 1997. Construction contracts let in Fiscal Year 1997 are expected to be completed and paid for by the end of FY 2000. Although the revenue sources continue after FY 1997, they are not adequate to address the funding needs of the transportation system after that date. At some point, consideration will have to be given to either providing additional revenue or reducing the level of service provided.



Forecasted Revenues

The chart on the next page shows that revenues are currently projected at a slightly higher level than the December 1989 estimate. This increase, which amounts to \$6.9 million or 1.8 percent for FY 1991, occurred primarily because the projection for motor fuel tax receipts was decreased in late 1989, then increased in April 1990 to nearly the original level. Current projections are based on the assumption that motor fuel consumption will remain flat for the next ten years.

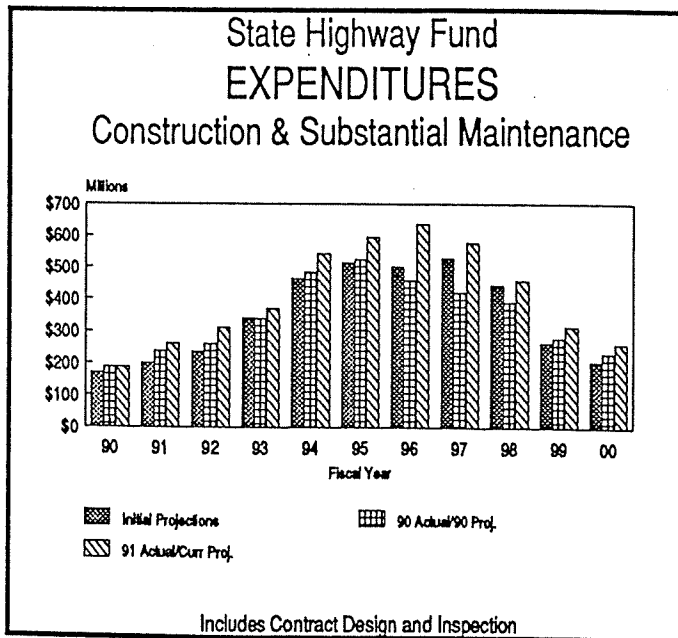
The projected growth rate in sales tax collections for FY 1993 and thereafter was maintained at 3.75 percent. No change was made in the estimates for vehicle registration fees, which were increased on January 1, 1990. Those projections will be reviewed after the statistics on a full calendar year's experience at the new rates become available.

the result of increased interest earning on higher state highway fund balances. The total increase in estimated revenues for FY 1992 is \$3.6 million or 0.9 percent.

The estimates for motor fuel taxes have been reduced by approximately four percent. This reduction reflects reduced consumption of motor fuels in the last 12 months. The consumption of motor fuels is expected to remain at approximately the current level for the balance of the Comprehensive Highway Program. The agency continues to closely monitor motor fuel consumption for indications of future changes in consumption. The estimate for vehicle registration fees was increased by \$1.6 million to reflect actual collections at the new rates. The amount collected per year is expected to remain stable at the revised estimate.

Forecasted Expenditures

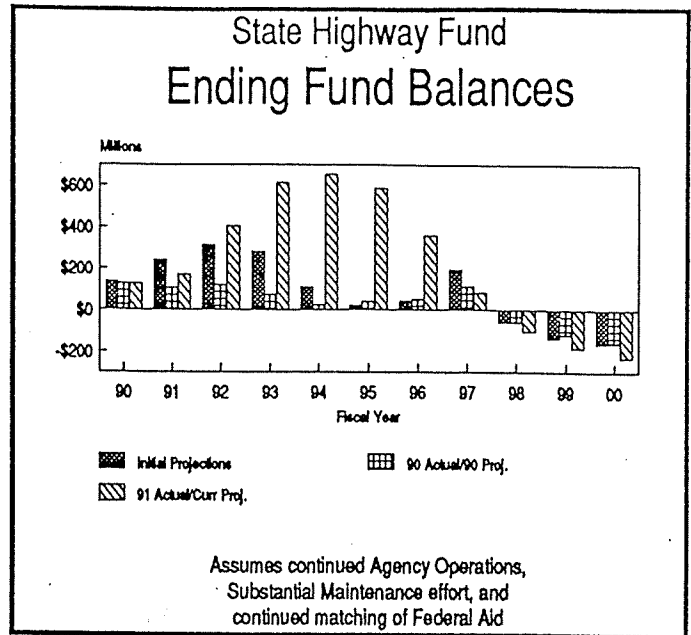
The agency continues to refine its expenditure estimates as projects are scheduled and work progresses. The current projections, with slight refinements, are consistent with last year's projections. The increase in expenditures between the current estimate and the prior year's estimate is primarily due to the passage of the Intermodal Surface Transportation Efficiency Act of 1991. The availa-



bility of additional federal dollars and the designated expenditure requirements result in higher expenditures in the later years of the program.

Projected Ending Cash Balances

The Comprehensive Highway Program was enacted in such a manner that all Major Modification projects were to be let to construction contract by the end of FY 1997 and adequate funding was provided for the actual construc-



tion. Substantial Maintenance and agency operations were only funded through FY 1997. Adequate revenue sources were provided to pay the debt service on the authorized bonds through their life. Although the revenue sources continue, they were not anticipated to be adequate to address the funding needs of the transportation system after FY 1997.

Funds are still anticipated to be adequate to finance agency operations and all program components through FY 1997. The major change in the projected ending balances shown in the chart at right is the result of the change in financial strategy for bond sales. At some point, consideration will still have to be given to either providing additional revenue or reducing the level of service provided beginning in FY 1998.

AGENCY ADMINISTRATION

The ability of the agency to actually produce the Comprehensive Highway Program is a major concern. In order to produce the program, adequate staffing must be provided and productivity must be increased.

Staffing

In prior years the Department successfully reduced staffing. Because of this past efficiency effort, it was necessary to increase staffing by approximately five percent in the first two years. An additional increase of 30 construction inspectors is required in FY 1993. The agency has only requested 15 new positions based on its commitment to allocate half of the positions from lower priority activities within the Department.

slight refinements for lowered expectations in federal trust fund dollars, are consistent with last year's projections.

Inflation estimates continue to be a major factor in determining the long-range forecast. The actual rate of inflation can have a significant effect on the amount of work that can be accomplished during the Comprehensive Highway Program. The Department continues to closely monitor forecasts of long-term inflation rates and the potential impact on the Program. At a recent meeting, the Highway Revenue Consensus Estimating Group reviewed the future inflation estimates and retained the estimate for highway construction at the current 5.2 percent annual rate. The inflation rate for agency salaries and operating expenditures was lowered by the State Consensus Revenue Estimating Group for FY 1993 and FY 1994. Future inflation rates for salaries and operating expenditures were also lowered to reflect current long-term estimates of inflation.

Projected Ending Cash Balances

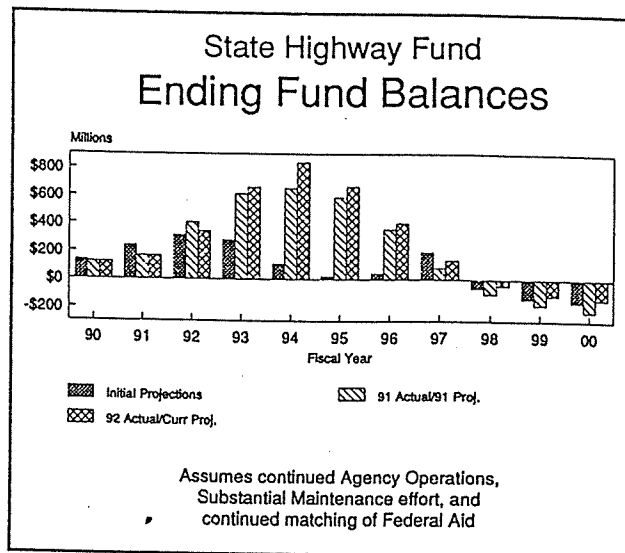
The Comprehensive Highway Program provided that all Major Modification projects were to be let to construction contract by the end of FY 1997 and adequate funding was included for their actual construction. Substantial maintenance and agency operations were only funded through FY 1997.

Adequate revenue sources were provided to pay the debt service on the authorized bonds through their life. Although the revenue sources continue past FY 1997, they were not anticipated to be adequate to address the funding needs of the transportation system after FY 1997.

Funds are still expected to be adequate to finance agency operations and all program components through FY 1997. The major change in the projected ending balances shown in the chart at right is the result of the actual and anticipated bond sales, the inclusion of motor fuel revenues previously flowing to the State Freeway Fund, and the lowering of inflation estimates for agency

salaries and operating expenditures.

At some point, consideration will still have to be given to either providing additional revenue or reducing the level of service provided to the traveling public beginning in FY 1998.



Investment Program

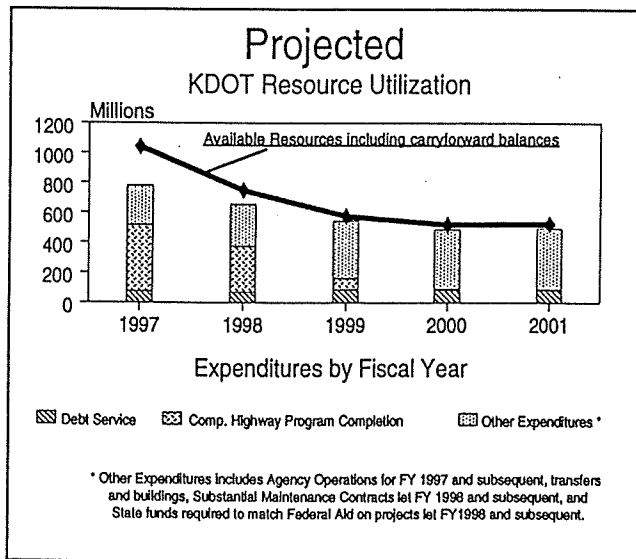
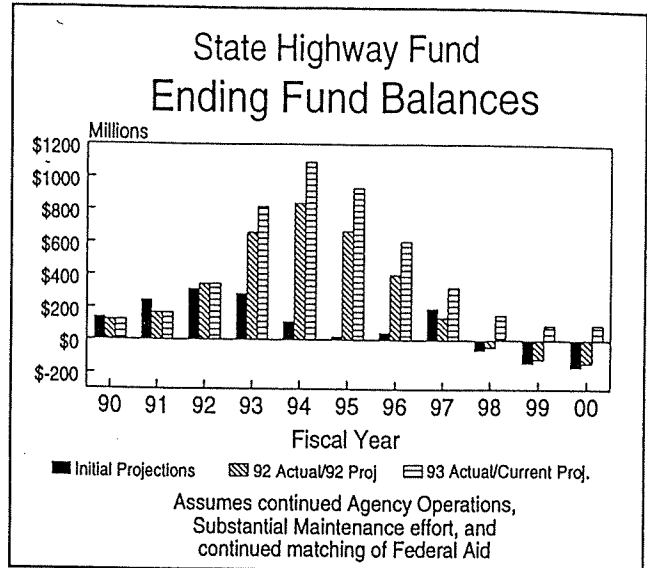
The investment strategy of the Kansas Department of Transportation is based on the premise of the Department achieving its four main objectives: 1) Preservation of principal, 2) Maintenance of liquidity, 3) Maximization of return on investment, and 4) Maintenance of public trust.

As a result of the actual project scheduling of the Comprehensive Highway Program, it is anticipated that the Department will accumulate substantial cash and investment balances through Fiscal Year 1995. Accumulated funds reflect construction commitments and are required to pay for the Comprehensive Highway Program as work progresses. Successful cash and investment management is considered to be crucial to the success of the Program and to the Department. The Department expects to reduce investment-related risk through a balance of quality and diversification within its investment portfolio. KDOT has contracted with an outside financial advisor to perform various investment-related duties, such as: investment and market research,

Projected Ending Cash Balances

The CHP provided that all Major Modification projects were to be let to construction contract by the end of FY 1997 and as shown in the chart below, adequate funding was included for their actual construction. Substantial Maintenance and agency operations were only funded through FY 1997.

Adequate revenue sources were provided to pay the debt service on the authorized bonds through their life. Although the revenue sources continue past FY 1997, they were not anticipated to be adequate to address the funding needs of the transportation system after FY 1997.



Funds are still expected to be adequate to finance agency operations and all program components through FY 1997. The major change in the projected ending balances shown in the following chart in the next column is the result of the actual and anticipated bond sales, the estimated increase in motor fuel taxes and registration fees, increased interest revenues because of delays in anticipated construction expenditures and the continued low inflation rates for agency salaries and operating expenditures. Consideration will still have to be given to either providing additional revenue or reducing the level of service provided to the traveling public.

Investment Program

The investment strategy of the Department is based on the premise of the Department achieving its four main investment objectives: 1) preservation of principal, 2) maintenance of liquidity, 3) maximization of return on investment and 4) maintenance of public trust.

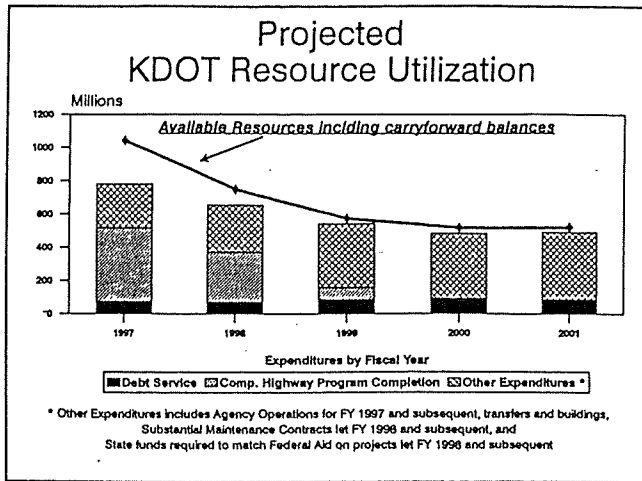
As a result of the actual project scheduling of the CHP, it is anticipated that the Department will accumulate substantial cash and investment balances through FY 1995. Accumulated funds reflect construction commitments and are required to pay for the CHP as work progresses. Successful cash and investment management is considered to be crucial to the success of the Program and to the Department. The Department expects to reduce investment-related risk through a balance of quality and diversification within its investment portfolio.

AGENCY ADMINISTRATION

The ability of the agency to actually produce the CHP remains a major concern. In order to produce the program, adequate staffing must be provided and productivity must be increased.

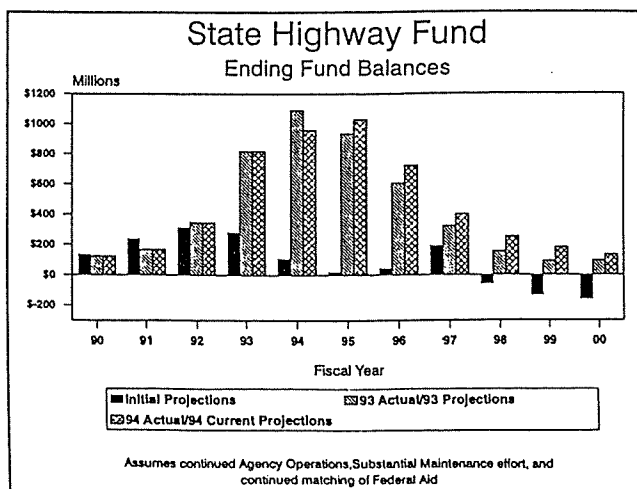
Staffing

In years prior to the CHP, the Department successfully reduced staffing. Because of this past



Funds are still expected to be adequate to finance agency operations and all program components through FY 1997. The major change in the projected ending balances shown in the chart below is the result of the actual bond sales, the estimated increase in motor fuel taxes and sales and compensating use tax receipts and the continued low inflation rates for agency salaries and operating expenditures.

The balance shown for FY 2000 exceeds the amount required to pay the bond debt and provide for the orderly payment of agency expenditures. Projected construction expenditures for FY 1998 and subsequent are based on a minimum program which only matches available federal aid and provides an orderly transition from the CHP. Since this level of construction is considered inadequate to maintain the State Highway System, at some point consideration will still have to be given to either providing additional revenue or reducing the level of service provided to the traveling public.



Investment Program

The investment strategy of KDOT is based on the premise of the Department achieving its four main investment objectives: 1) preservation of principal, 2) maintenance of liquidity, 3) maximization of return on investment and 4) maintenance of public trust.

As a result of the actual project scheduling of the CHP, the Department has accumulated and will continue to accumulate substantial cash and investment balances through FY 1995. Accumulated funds reflect construction commitments and are required to pay for the CHP as work progresses. Successful cash and investment management is considered to be crucial to the success of the Program and to the Department. The Department expects to reduce investment-related risk through a balance of quality and diversification within its investment portfolio. KDOT has contracted with an outside financial advisor to perform various investment-related duties, such as: investment and market research, investment strategy development and cash flow forecasting.

AGENCY ADMINISTRATION

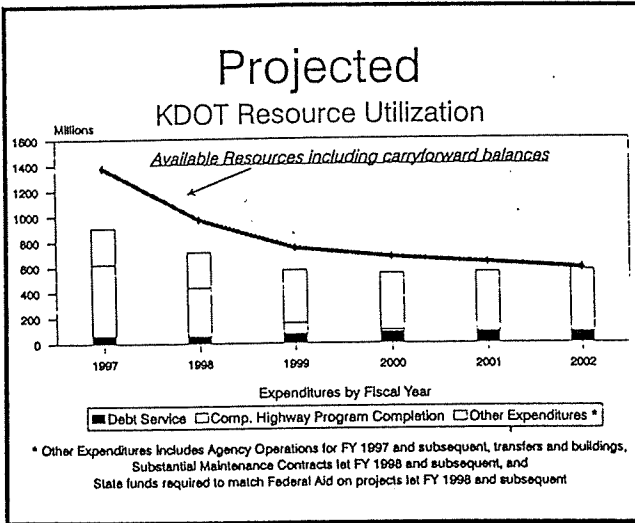
The ability of the agency to actually produce the CHP remains a major concern. In order to produce the program, adequate staffing must be provided and productivity must be increased.

Staffing

In years prior to the CHP, the Department successfully reduced staffing. In FY 1971, KDOT had 4,652 positions. A total of 448 positions were transferred to other agencies. At the beginning of the CHP in FY 1989, KDOT had reduced staffing to 3,140 positions. The Department's strategy has been to add staff only as required. To date, the program has been directly responsible for the addition of 108 FTE, an increase of 3.4 percent from the Department's pre-Program head count. The agency's actual workload will continue to increase because more projects will be under construction in FY 1995 and FY 1996. No new positions were requested for FY 1994, FY 1995 or FY 1996.

Projected Ending Cash Balances

The CHP provided that all Major Modification projects were to be let to construction contract by the end of FY 1997 and adequate funding was included for their actual construction and payment which will extend to FY 2000. Substantial maintenance and agency operations were only funded through FY 1997.

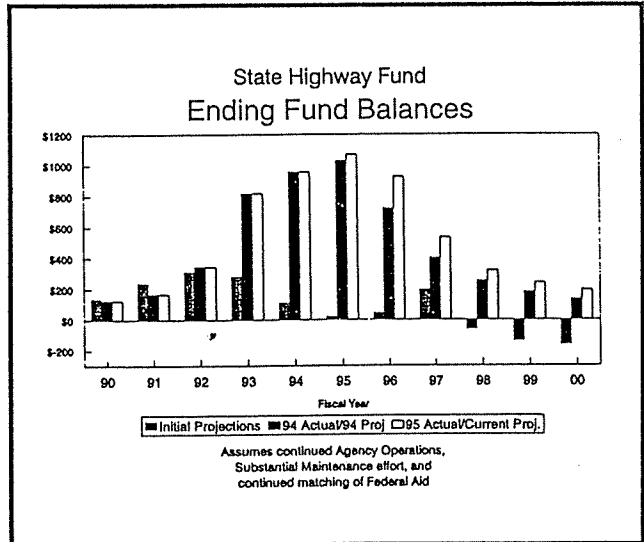


Adequate revenue sources were provided to pay the debt service on the authorized bonds through their entire life. Although the revenue sources continue past FY 1997, they were not anticipated to be adequate to address the funding needs of the transportation system after FY 1997.

Funds are still expected to be adequate to finance agency operations and all program components through FY 1997. The major change in the projected ending balances shown in the chart at right is the result of the actual bond sales, the estimated increase in motor fuel taxes, registration fees and sales and Compensating Use Tax receipts, and the continued low inflation rates for agency salaries and operating expenditures.

As a result, the need for additional revenues is not as urgent as previously projected (see above chart). The balance shown for FY 2000 exceeds the amount required for the bond debt and provides for the orderly payment of agency expenditures. Adequate balances, given the projected construction expenditures, are currently projected through approximately FY 2002.

Projected construction expenditures for FY 1998 and subsequent are based on a minimum program which only matches the estimated available federal aid and maintains an adequate level of substantial maintenance. Since this level of construction is considered inadequate to fully maintain a declining State Highway System, at some point, consideration will still have to be given to either providing additional revenue or reducing the level of service provided to the traveling public.

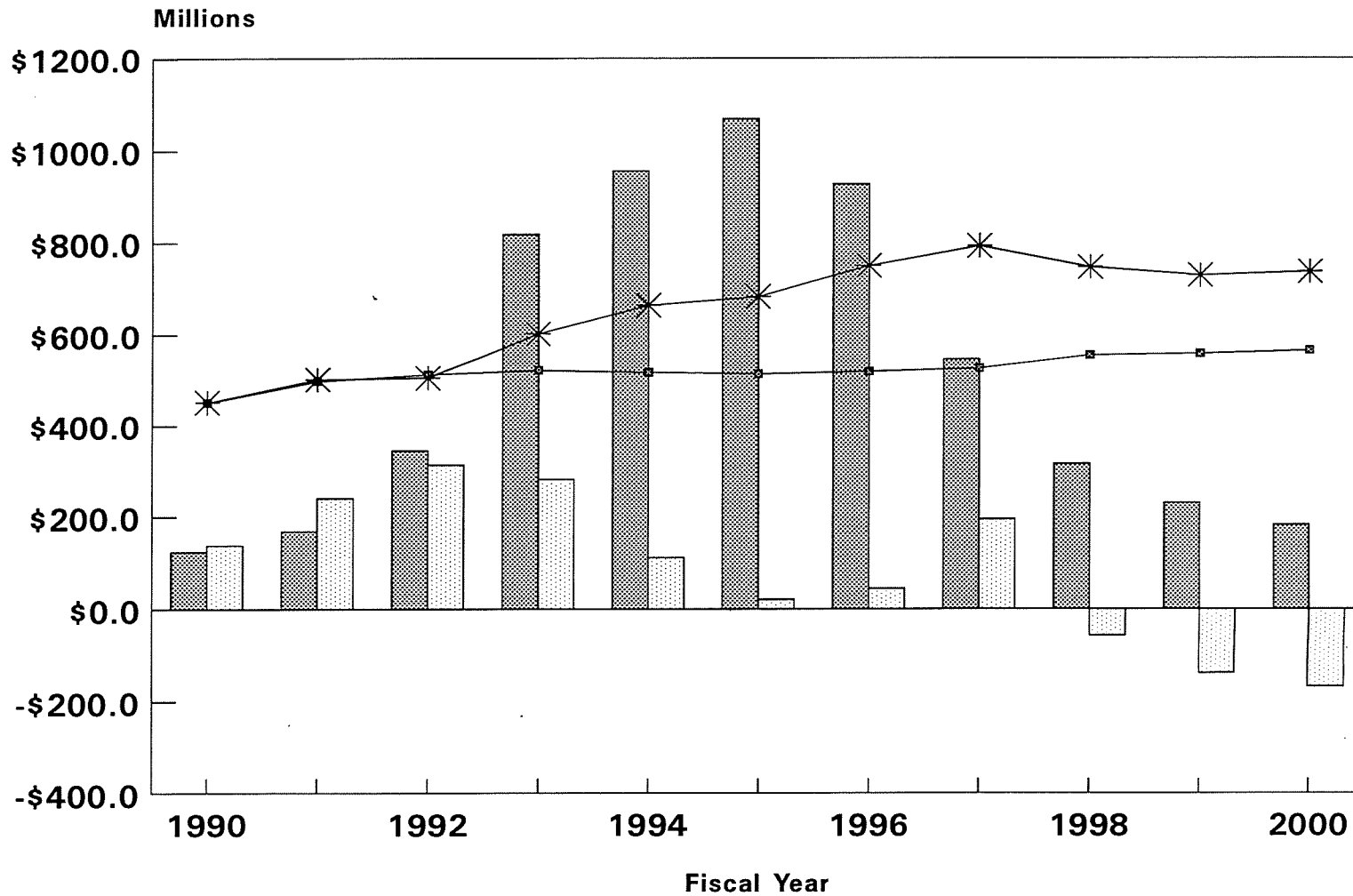


Investment Program

The investment strategy of the KDOT is designed to permit the Department to achieve its four main investment objectives of: 1) preservation of principal, 2) maintenance of liquidity, 3) maximization of return on investment, and 4) maintenance of public trust.

As a result of the actual project schedule of the CHP and the sale of bonds during periods of historically low interest rates, the Department has accumulated substantial cash and investment balances through FY 1995. Accumulated funds reflect construction commitments and are required to pay for the CHP as work progresses. Successful cash and investment management is considered to be crucial to the success of the program and to the Department. The Department expects to continue to reduce investment-related risk through a balance of quality, diversification and the matching of investment maturities with the anticipated cash

Highway Fund Revenues (No Bonds) and Balances 1989 & 1996 KDOT Projections

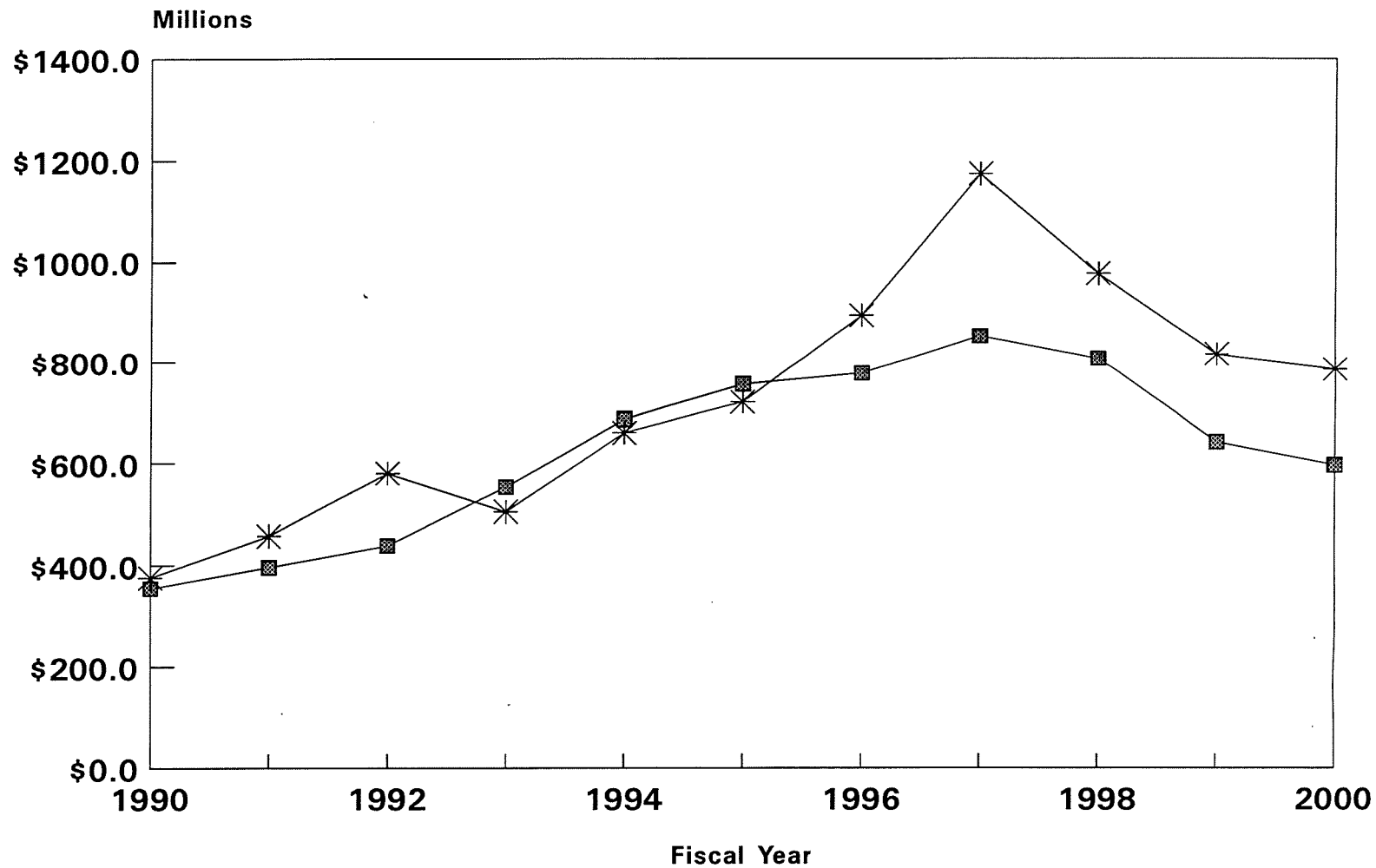


* 1996 Rev. ■ 1996 Balance ◻ 1989 Rev. ◻ 1989 Balance

Senate Ways & Means
 January 30, 1996
 Attachment 2

Highway Fund Expenditures and Transfers 1989 & 1996 KDOT Projections

2-2



* 1996 Expenses ■ 1989 Expenses

Legislative Research Dept. 1/30/96
CHP96HY6